



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

DATE: May 12, 2014

TO: Water Policy Committee

FROM: Nick Brown & Stephanie Morrison, Legislative Fiscal Division

RE: Metalliferous Mines Tax Information

This memo is in response to a request for general information regarding the metalliferous mines tax. The information presented includes a brief description of the tax, its structure and distribution, and the forecast process. The updated revenue trend for the general fund portion of this revenue stream that was presented to the December meeting of the Legislative Finance Committee is shown for informational purposes only.

REVENUE DESCRIPTION

The metalliferous mines license tax is imposed on the production of metals, gems or stones in the state. The applicable tax rate ([MCA 15-37-103](#)) is applied to the gross value of the product, defined as the market value of the commodity multiplied by the quantity produced. The tax is due twice a year ([MCA 15-37-105](#)), and the first \$250,000 of value is exempt from taxation. A company taxed at both rates can claim both exemptions.

APPLICABLE TAX RATES

The tax rate for a 6-month period is shown in the table below. Gross value is the monetary amounts or refined metal received for the products less basic treatment and refinery charges, and other deductions.

Metalliferous Mines Tax Rates		
	Gross Value	Tax Rate
For concentrates shipped to a smelter, mill or reduction work:	\$0-\$250,000	Exempt
	\$250,000+	1.81%
For gold, silver, or any platinum group metal that is dore, bullion, or matte and that is shipped to a refinery:	\$0-\$250,000	Exempt
	\$250,000+	1.6%

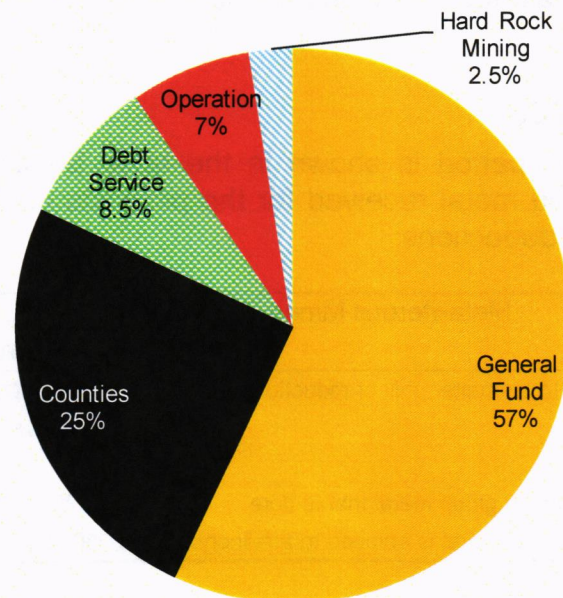
DISTRIBUTION

The distribution of the metal mines tax ([MCA 15-37-117](#)) has been altered several times since the 1990s. The 2001 Legislature created a hard-rock mining reclamation debt service fund to pay debt service on the \$8.0 million of bonds authorized for state costs related to hard-rock mining reclamation, operation, and maintenance. The 8.5% allocation of metalliferous mines tax revenue previously allocated to the orphan share account was allocated to the hard-rock mining reclamation debt service fund. The 2005 Legislature increased the allocation to counties from 24% to 25% and decreased the general fund allocation from 58% to 57%. The table below shows recent historical distributions of the tax revenue.

Account Name	Metalliferous Mines Tax Distribution					
	FY 1998 to FY 1999	FY 2000 to FY 2002	FY 2003	FY 2004 to FY 2005	FY 2006 to FY 2007	FY 2008 & Beyond
General Fund	58.0%	58.0%	58.0%	65.0%	58.0%	57.0%
Counties *	25.0%	25.0%	24.0%	24.0%	24.0%	25.0%
Hard Rock Reclamation Debt Service	0.0%	0.0%	0.0%	8.5%	8.5%	8.5%
Natural Resources Operations**	0.0%	4.8%	7.0%	0.0%	7.0%	7.0%
Hard Rock Mining	1.5%	1.5%	2.5%	2.5%	2.5%	2.5%
RIT Trust	15.5%	0.0%	0.0%	0.0%	0.0%	0.0%
Groundwater Assessment	0.0%	2.2%	0.0%	0.0%	0.0%	0.0%
Abandoned Mines	0.0%	8.5%	0.0%	0.0%	0.0%	0.0%
Orphan Share	0.0%	0.0%	8.5%	0.0%	0.0%	0.0%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

* Statutorily appropriated

Current Distribution



REVENUE ESTIMATE METHODOLOGY

The metalliferous mines tax is applied to the taxable gross value of production. The metalliferous mines tax estimate is developed by estimating the annual sales price for each type of metal produced and the anticipated production quantity of each metal by company. From these estimates, taxable gross value can be determined to which an effective tax rate is applied. Since all production and price information is reported on a calendar year basis, the resulting calendar year estimates are converted into fiscal year estimates.

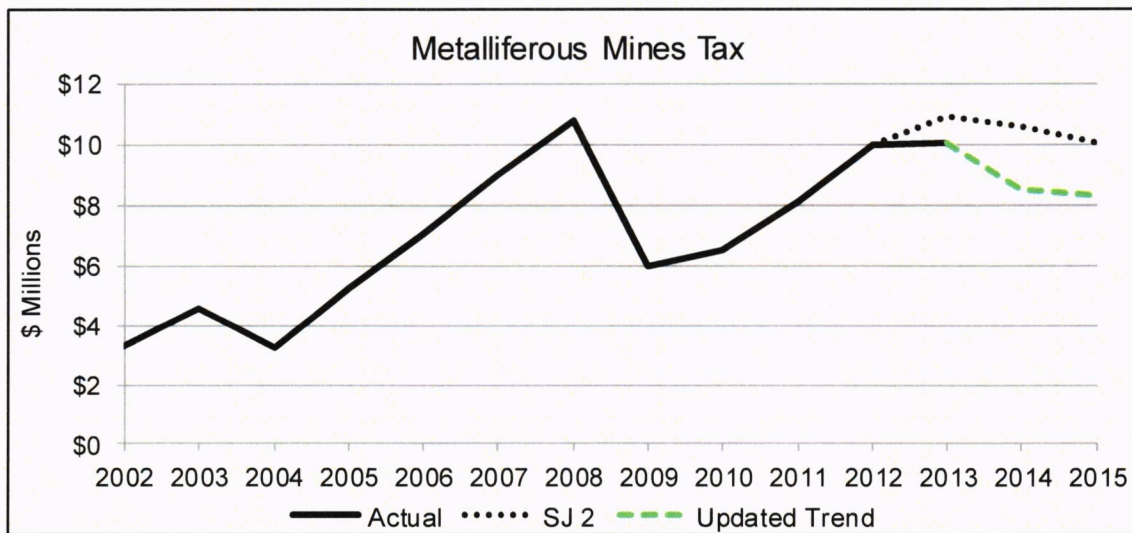
Data

Mining companies are surveyed for anticipated production levels. Historical and future prices are obtained from various sources, including COMEX, NYMEX, and KITCO, depending on the metal. In addition, a review is performed of historical trends, current literature on metals and metal prices, and companies' 10-Q reports. Data from biannual reports produced by the Department of Revenue provides a history of production and prices by commodity and taxable gross value for each mining company.

DECEMBER UPDATED TREND

The updated revenue trends presented to the Legislative Finance Committee in December reflected a combination of changes in base year data, revised assumptions, modeling adjustments, and new IHS forecasts. Although it is instructive to see the impact of the new data on expected revenue trends, it is important to note that no changes were made to the official estimate contained in SJ 2. The updated revenue trend for the metal mines tax shown below is informational only.

General fund metal mines tax collections were \$0.9 million below the estimate contained in SJ 2 in FY 2013. The primary reason for the decrease in revenue was the lower-than-forecast prices for most metals.



Based on updated survey information collected in October 2013 from each of the major metal mines producers in the state, overall production will decline for some metals in the forecast period. The decline in production is driving the reduction in expected tax revenue.